

**Advance Refunds Were Accurately Calculated  
and Issued to Eligible Taxpayers, But  
Some Undelivered Refunds Were  
Unnecessarily Delayed**

**June 2002**

**Reference Number: 2002-40-116**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

June 26, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Advance Refunds Were Accurately  
Calculated and Issued to Eligible Taxpayers, But Some  
Undelivered Refunds Were Unnecessarily Delayed  
(Audit # 200140056)

This report presents the results of the second phase of our reviews of the advance refund provisions of H.R. 1836,<sup>1</sup> also known as the Economic Growth and Tax Relief Reconciliation Act of 2001. In the initial phase of our reviews, we evaluated whether the Internal Revenue Service (IRS) timely and accurately notified taxpayers about their advance refunds. The overall objective of our current review was to determine whether the IRS accurately calculated and issued advance refunds to eligible taxpayers. We also evaluated the IRS' year-end actions to reverse the remaining advance refund credits to prevent issuance of advance refunds after the December 31, 2001, legislative deadline. In the third phase of our reviews, we reviewed advance refunds to determine how well the IRS handled the advance refund amounts during the 2002 Filing Season for purposes of computing the Rate Reduction Credit. We will be issuing a separate report on the third phase of our review shortly.

The Congress enacted H.R. 1836, requiring the Treasury to provide advance refunds to eligible taxpayers as rapidly as possible. These advance refunds of Tax Year (TY) 2001 individual income taxes were to be calculated based on information from the taxpayers' TY 2000 tax returns. From July through December 2001, the IRS credited approximately 90 million taxpayer accounts with approximately \$39 billion in advance refund amounts. Additionally, the IRS determined that over 30 million taxpayers were not eligible to receive advance refunds.

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<sup>1</sup> Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, 115 Stat. 38.

In some situations, the IRS credited taxpayers' TY 2000 accounts for the advance refund amounts, but did not issue the refunds. These situations occurred when taxpayers' accounts had certain conditions that would "freeze" the accounts, preventing any refunds until the freeze conditions were resolved. In addition, advance refunds returned as undelivered by the Post Office were credited back to taxpayers' accounts and frozen. However, the law prohibited the IRS from issuing advance refunds after December 31, 2001. To prevent refunds after this date, the IRS had to reverse remaining advance refund credits from taxpayers' accounts at the end of 2001. The net advance refund amounts received by taxpayers (the advance refund credit amounts less any reversal amounts) were needed by both the IRS and taxpayers to determine the amount of Rate Reduction Credit taxpayers could claim on their TY 2001 tax returns. The IRS provided these net advance refund amounts to taxpayers via a toll-free telephone number.

The IRS accurately calculated and issued advance refunds to eligible taxpayers. In addition, the IRS analyzed taxpayers' accounts with credit balances at year-end and properly reversed remaining advance refund credits to prevent refunds after December 31, 2001.

However, the IRS did not always reissue undelivered refunds when it received more current addresses.<sup>2</sup> This occurred because the IRS did not program its computer system to automatically reissue undelivered refunds for all types of address changes made to taxpayers' accounts. Also, when reviewing undelivered refund notices, IRS employees did not always perform required research or adequate research on IRS computer systems to identify more current addresses and reissue the refunds.

On October 12, 2001, we informed IRS management about the undelivered refunds with more current addresses. Subsequently, as of late October 2001, the IRS identified over 34,000 accounts with undelivered refunds that had not been reissued even though the IRS computer files showed more current addresses. We estimate these 34,000 refunds totaled over \$10 million and had been delayed for an average of 8 weeks. In late December 2001, as a result of our raising this concern, the IRS identified unresolved undelivered refunds on accounts with more current addresses and reissued the refunds.

Management's Response: IRS management believes the IRS' efforts were highly successful in meeting the intent of the legislation in a timely manner. They also believe that this report is accurate and balanced and that our efforts helped them to successfully implement and administer the provisions of this law.

The IRS agreed with our recommendations as presented in the report. Management's complete response to the draft report is included as Appendix V.

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<sup>2</sup> We considered an address to be more current if it had been updated on IRS computer files after the issuance date of the related refund that was undelivered.

Copies of this report are also being sent to the IRS managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

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But Some Undelivered Refunds Were Unnecessarily Delayed**

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## **Advance Refunds Were Accurately Calculated and Issued to Eligible Taxpayers, But Some Undelivered Refunds Were Unnecessarily Delayed**

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### **Background**

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On June 7, 2001, H.R. 1836,<sup>1</sup> also known as the Economic Growth and Tax Relief Reconciliation Act of 2001, was signed into law. This legislation included a reduction in tax rates beginning in Tax Year (TY) 2001. The rate reduction for TY 2001 was provided to eligible taxpayers as (1) an advance refund of TY 2001 taxes calculated based on information from the taxpayer's TY 2000 tax return, and/or (2) a Rate Reduction Credit claimed on the taxpayer's TY 2001 return. Taxpayers who did not receive the maximum advance refund amount<sup>2</sup> might be able to claim the additional amount as a Rate Reduction Credit on their TY 2001 tax returns.<sup>3</sup>

The legislation required advance refunds to be issued by Treasury as rapidly as possible to all eligible taxpayers. To prevent errors by taxpayers who might file their TY 2001 returns early in 2002 and claim the Rate Reduction Credit, the law prohibited the Internal Revenue Service (IRS) from issuing advance refunds after December 31, 2001.

Over 120 million taxpayers filed Individual Income Tax Returns for TY 2000. In July 2001, the IRS began mailing notices to inform these taxpayers whether they were eligible for an advance refund. Notices to eligible taxpayers included the advance refund amounts and the approximate dates their checks would be issued. After issuing the notices, the IRS credited taxpayers' TY 2000 accounts for the advance refund amounts and issued refund checks.

In some situations, the IRS credited taxpayers' accounts for the advance refund amounts, but did not issue the refunds. These situations occurred when taxpayers' accounts had certain conditions that would "freeze" the accounts,

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<sup>1</sup> Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, 115 Stat. 38.

<sup>2</sup> The maximum advance refund amounts are \$300 for taxpayers filing as single or married filing separately, \$500 for taxpayers filing as head of household, and \$600 for taxpayers filing jointly or as a qualifying widow(er).

<sup>3</sup> The credit may be claimed on line 47 of U.S. Individual Income Tax Return (Form 1040), line 30 of U.S. Individual Income Tax Return (Form 1040A), or line 7 of Income Tax Return for Single and Joint Filers With No Dependents (Form 1040EZ).

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preventing any refunds until the freeze conditions were resolved. In addition, advance refunds returned as undelivered by the Post Office were credited back to taxpayers' accounts and frozen. To prevent issuance of advance refunds from unresolved accounts after December 31, 2001, the IRS had to reverse remaining advance refund credits from taxpayers' accounts at the end of 2001.

The net advance refund amounts received by taxpayers (the advance refund credit amounts less any reversal amounts) were needed by both the IRS and taxpayers to determine the amount of Rate Reduction Credit taxpayers could claim on their TY 2001 tax returns. The IRS provided these net advance refund amounts to taxpayers via a toll-free telephone number.

This audit was conducted at the IRS National Headquarters and the Fresno Campus from October 2001 through February 2002 and in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### **The Internal Revenue Service Accurately Calculated and Issued Advance Refunds to Eligible Taxpayers and Properly Reversed Credits at Year-End**

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From July through December 2001, the IRS credited approximately 90 million taxpayers with approximately \$39 billion in advance refunds. The IRS also determined that over 30 million taxpayers were not eligible to receive an advance refund.

The IRS accurately calculated and issued advance refunds to eligible taxpayers. This included determining whether over 120 million taxpayers were eligible to receive advance refunds and calculating the advance refund amounts for the eligible taxpayers. These significant accomplishments were performed in a very limited time.<sup>4</sup> We analyzed a 0.1 percent sample of TY 2000 individual tax accounts and did not identify any ineligible taxpayers who received a

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<sup>4</sup> For more details see our report for the initial phase review of the advance refund provisions, *While Most Taxpayers Received Accurate and Timely Notification of Their Advance Refunds, Millions Did Not* (Reference Number 2002-40-016, dated October 2001).

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rebate and found that 99.9 percent of the advance refunds were calculated correctly.

To prevent issuance of advance refunds after December 31, 2001, the IRS had to analyze taxpayer accounts with an advance refund credit and a credit balance (caused by certain freeze conditions, including undelivered refunds) at year-end to reverse any remaining advance refund credits. To assist the IRS, we reviewed IRS test data for the computer programming of the reversals and provided the IRS with our results. We identified accounts where:

- The credit was reversed, but should not have been.
- The credit was not reversed, but should have been.
- The credit was reversed, but for the wrong amount.

The IRS used our results in conjunction with its own to refine the programming and properly reversed the advance refund credits remaining at year-end.

The year-end reversal process involved reversing over \$140 million in advance refund credits on approximately 465,000 taxpayers' accounts. We reviewed approximately 300 accounts with advance refund credits and credit balances at year-end. The IRS properly determined whether a reversal was needed and correctly computed any reversal amount on over 99 percent of the accounts reviewed.

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### **The Internal Revenue Service Did Not Always Reissue Undelivered Refunds When More Current Addresses Were Received**

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The advance refund program created a large number of refund checks, which increased the volume of checks returned as undelivered by the Post Office. Including all types of refunds, both advance refunds and others, over 86 million<sup>5</sup> refunds were issued from July 2001 through December 2001.<sup>6</sup> During the same period, over 500,000 refunds were returned as undelivered.

Undelivered refunds are credited back to taxpayers' accounts and frozen to prevent the refunds from being

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<sup>5</sup> Not all advance refund credits resulted in refunds, because some were applied to outstanding liabilities.

<sup>6</sup> This includes refunds where all or part of the refund was the advance refund and also those where the refund did not include any advance refund. The number of undelivered advance refunds was not available.



## **Advance Refunds Were Accurately Calculated and Issued to Eligible Taxpayers, But Some Undelivered Refunds Were Unnecessarily Delayed**

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reissued until a more current<sup>7</sup> address is obtained. Notices<sup>8</sup> stating, “we need to know your current address” are then generated to request current addresses from the taxpayers.<sup>9</sup> Before mailing these notices, employees should obtain and review original returns and research IRS computer systems for more current addresses. Employees may find that a return address was input incorrectly during return processing or that a more current address was received after the refund was issued. Employees should reissue the refunds when more current addresses are obtained through research or from taxpayers. The refunds will also be reissued when taxpayers update their addresses by filing subsequent tax returns.

The IRS did not always reissue undelivered refunds when it received more current addresses. This occurred because:

- The IRS did not program its computer system to reissue undelivered refunds for all types of address changes made to taxpayers’ accounts. Some address changes made after undelivered refunds were credited back to taxpayers’ accounts would reissue the refunds and some would not.
- IRS employees did not always perform required research or adequate research to identify more current addresses on IRS computer systems. In over 50 percent of the 250 cases we analyzed, employees should have identified more current addresses and reissued the refunds, but did not.

On October 12, 2001, we informed IRS management about the undelivered refunds with more current addresses. Subsequently, as of late October 2001, the IRS identified over 34,000 accounts with undelivered refunds that had not been reissued even though the IRS computer files showed more current addresses. We estimate these 34,000 refunds

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<sup>7</sup> We considered an address to be more current if it had been updated on IRS computer files after the issuance date of the related refund that was undelivered.

<sup>8</sup> Undelivered Refund Check notice (CP 31).

<sup>9</sup> A notice may be received by the taxpayer even though the refund was not.

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totaled over \$10 million and had been delayed for an average of 8 weeks.<sup>10</sup> These taxpayers might have received notices requesting their current addresses, even though they had already provided their current addresses to the IRS or to the Post Office,<sup>11</sup> which may have caused taxpayer confusion. In late December 2001, as a result of our raising this concern, the IRS identified unresolved undelivered refunds on accounts with more current addresses and reissued the refunds.

If the IRS computer system had been programmed to reissue undelivered refunds whenever more current addresses were received, fewer Undelivered Refund Check notices would have been generated. In addition, the IRS would have been able to eliminate certain computer system research for more current addresses on over 250,000 notices each year before mailing the notices.<sup>10</sup>

### **Recommendations**

1. The Commissioner, Wage and Investment (W&I) Division, should revise computer programming to automatically reissue undelivered refunds for any address changes occurring after the date of the original refund.<sup>12</sup> Adopting this recommendation would allow these taxpayers to receive their refunds sooner and also reduce the number of Undelivered Refund Check notices generated.

**Management's Response:** Management agreed with this recommendation and on February 4, 2002, submitted a Request for Information Services (RIS) asking for the programming changes. The RIS was amended on May 22, 2002, to show that it was based on a corrective action.

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<sup>10</sup> See Appendix IV.

<sup>11</sup> The IRS uses some Post Office address changes to update taxpayer address information.

<sup>12</sup> This should include releasing the undelivered refund freeze for any type of address change subsequent to the freeze. This should also include immediately reissuing (not freezing) the undelivered refund when the address has changed after the issuance date of the related refund and through the week the undelivered refund is credited back to the taxpayer's account.

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2. If Recommendation 1 is adopted, the Commissioner, W&I Division, should eliminate certain required IRS computer system research used to look for more current addresses before mailing the Undelivered Refund Check notices. The computer would be performing this research.

Management's Response: Management agreed with this recommendation and will change their process guidelines once the RIS is implemented.

## **Advance Refunds Were Accurately Calculated and Issued to Eligible Taxpayers, But Some Undelivered Refunds Were Unnecessarily Delayed**

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### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

The overall objective of our review was to determine whether the Internal Revenue Service (IRS) accurately calculated and issued advance refunds to eligible taxpayers. We also evaluated the IRS' year-end actions to reverse remaining advance refund credits to prevent issuance of advance refunds after the December 31, 2001, legislative deadline.

- I. We determined if the IRS accurately credited taxpayer accounts and issued the advance refunds.
  - A. We obtained a computer extract of Tax Year (TY) 2000 Individual Masterfile<sup>1</sup> (IMF) data and related information from the IRS' Individual Return Transaction File<sup>2</sup> as of cycle 200139.<sup>3</sup> To obtain a manageable number of records to analyze, we extracted a 0.1 percent random interval sample of 124,060 accounts from approximately 124,060,000 TY 2000 returns posted. We computer-analyzed the sample accounts for any indications that the advance refund credit was not accurately calculated. For any potential problems identified, we evaluated account information and determined if the credits were accurately calculated.
  - B. From the 0.1 percent sample in Objective I.A., we used computer-generated random numbers to select a random sample of 1,000 accounts. We reviewed the accounts to determine if there were any unknown problems present that would adversely affect the accounts.
  - C. We validated the extract data from Objective I.A. We took a judgmental sample of 30 accounts and compared the data to the source data on the IMF by researching the accounts on the Integrated Data Retrieval System (IDRS).<sup>4</sup> We also performed various computer sorts to determine if the extract data was reasonable.
- II. We determined whether the IRS effectively handled accounts having both an advance refund credit and an unresolved undelivered refund.

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<sup>1</sup> The IRS database that maintains transactions or records of individual tax accounts.

<sup>2</sup> The IRS' computer data file of the tax return information that is input from Individual Income Tax returns as they are processed.

<sup>3</sup> A cycle is 1 week's processing at the campuses and is expressed as a six-digit code. The first four digits are the calendar year of processing. The last two digits are the processing week in that year.

<sup>4</sup> The IRS computer system capable of retrieving or updating stored information; works in conjunction with a taxpayer's account records.

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- A. We obtained a computer extract of IRS data and identified approximately 314,000 TY 2000 accounts on the IMF with an advance refund credit and an unresolved undelivered refund (indicated by an undelivered refund check freeze) as of cycle 200139.
    - 1. We used computer queries to determine how many of the 314,000 TY 2000 accounts had more current addresses available as of cycle 200139. We considered an address to be more current if it had been updated after the issuance date of the related refund that was undelivered. This identified approximately 25,000 accounts with more current addresses available. We took an interval sample of 250 of the 25,000 accounts by selecting every 100<sup>th</sup> account.
      - a. We determined whether employees had researched the related Undelivered Refund Check notices (CP 31) and reissued the refunds.
      - b. We determined the average number of weeks the 250 refunds were delayed because the IRS did not always automatically reissue undelivered refunds when it received more current addresses.
    - 2. We validated the computer extract data in Objective II.A. To obtain a small, random sample of the accounts extracted, we took an interval sample of 30 accounts by selecting every 10,000<sup>th</sup> account and compared the data to the source data on the IMF by researching the accounts on the IDRS. We also determined if the number of accounts extracted was reasonable by comparing the extract volume to the volume estimated from our 0.1 percent sample in Objective I.A.
  - B. In October 2001, we advised the IRS that we had identified accounts frozen due to undelivered advance refund checks even though the addresses had been updated after the advance refunds were issued. We subsequently determined the IRS corrective actions to resolve such accounts prior to December 31, 2001.
- III. We determined if the IRS took appropriate actions to reverse remaining advance refund credits at year-end.
- A. To assist the IRS, we reviewed IRS test data for approximately 1,200 accounts provided by the IRS. We evaluated these accounts to determine if the advance refund credits needed to be reversed and if the reversal amounts were correct.
  - B. From our sample in Objective I.A., we identified approximately 650 accounts with an advance refund credit, any one of a number of specified freeze conditions, and a credit balance on the account when the data was extracted in cycle 200139. We analyzed these accounts and identified approximately 300 that had credit balances when the reversals were calculated, and would have been analyzed by the IRS in its reversal process. We determined if the advance refund credits on these 300 accounts needed to be reversed and if the credit reversals were accurately calculated and posted to the accounts.

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**Appendix II**

**Major Contributors to This Report**

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Stanley Rinehart, Director

Richard Calderon, Audit Manager

Carola Gaylord, Senior Auditor

Larry Mart, Senior Auditor

Sharon Summers, Senior Auditor

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**Appendix III**

**Report Distribution List**

Commissioner N: C  
Deputy Commissioner N: DC  
Senior Advisor to the Office of the Commissioner N: DC  
Commissioner, Small Business/Self-Employed Division S  
Chief, Customer Liaison S:COM  
Deputy Commissioner, Wage and Investment Division W  
Director, Strategy and Finance W:S  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:F:M  
Audit Liaison:  
    Commissioner, Wage and Investment Division W

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### **Appendix IV**

#### **Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

##### Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; 34,000 taxpayers had undelivered refunds totaling over \$10 million delayed an average of 8 weeks; (see page 3).

##### Methodology Used to Measure the Reported Benefit:

From all Tax Year (TY) 2000 accounts on the Individual Masterfile (IMF),<sup>1</sup> the Internal Revenue Service (IRS) identified approximately 34,000 accounts as of cycle 200143<sup>2</sup> with a frozen undelivered refund<sup>3</sup> and an address change on the IMF after the advance refund had been issued. We estimated the dollar value of these refunds using the average undelivered advance refund amount of approximately \$320 provided by the IRS.

From our Office of Information Technology, we obtained a Masterfile extract that identified approximately 314,000 TY 2000 accounts on the IMF with an advance refund credit and an undelivered refund check freeze as of cycle 200139. From this extract we used computer queries to identify approximately 25,000 accounts with more current addresses available. We evaluated a random interval sample of 250 of these accounts by selecting every 100<sup>th</sup> account and determining the average number of weeks the refunds were delayed.

##### Type and Value of Outcome Measure:

- Cost Savings – Potential; reprogramming the IRS computer as suggested in Recommendation 1 of this report would eliminate the need for IRS employees to perform certain IRS computer system research<sup>4</sup> for more current addresses on over 250,000 accounts each year, allowing approximately \$367,000 to be put to better use over the next 5 years; (see page 3).

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<sup>1</sup> The IRS database that maintains transactions or records of individual tax accounts.

<sup>2</sup> A cycle is 1 week's processing at the campuses and is expressed as a six-digit code. The first four digits are the calendar year of processing. The last two digits are the processing week in that year.

<sup>3</sup> This includes refunds where all or part of the refund was the advance refund and also those where the refund did not include any advance refund. The number of undelivered advance refunds was not available.

<sup>4</sup> We believe that research of the IRS' Integrated Data Retrieval System (IDRS) using command codes ENMOD, IMFOL, and REMRQ as suggested by the IRS' Internal Revenue Manual could be eliminated.



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### Methodology Used to Measure the Reported Benefit:

We used the following to calculate the benefit.

- Based on IRS notice volume reports, the average number of Undelivered Refund Check notices (CP 31) for the 4 years prior to 2001 was approximately 320,000 per year.<sup>5</sup>
- We were not able to obtain sufficient information to determine the amount of time it takes to perform the specified computer system research to obtain more current addresses for the CP 31 notices before mailing. Therefore, to be conservative in our cost savings estimate, we used a rate of 60 per hour worked by employees earning \$17.20 per hour.<sup>6</sup>
- To arrive at the number of notices for which certain computer system research by employees could be eliminated, we reduced the total volume of notices by an estimate of those that could still require this research. According to IRS procedures, the CP 31 notices for paper returns have to be researched on IRS computer systems if the address on the original return is different from that on the CP 31. Based on discussions with IRS employees regarding the percentage of CP 31 notices for which Refund Inquiry employees find updated addresses, and considering the percentage of electronically filed returns, we estimate that certain computer system research could be eliminated for at least 80 percent of the notices.

Using the above, our calculations are:

320,000	Times	80 percent	=	256,000 notices per year not needing certain IRS computer system research
256,000	Divided By	60 per hour	=	4,267 hours of research eliminated per year
4,267	Times	\$17.20 per hour	=	\$73,392 saved per year
\$73,392	Times	5 years	=	\$366,960 saved over 5 years

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<sup>5</sup> The number of notices for 2001 was not typical because of the large number of undelivered advance refunds, so we did not include this in our average.

<sup>6</sup> We used the standard hourly pay rate, provided by a national IRS Refund Inquiry analyst, which is based upon Grade 7 Step 5 within the Cincinnati area.

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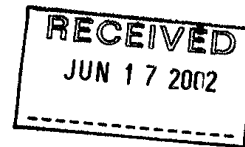
**Appendix V**

**Management's Response to the Draft Report**



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

June 17, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX  
ADMINISTRATION

FROM:

*John M. Dalrymple*  
John M. Dalrymple  
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report: Advance Refunds Were Accurately  
Calculated and Issued to Eligible Taxpayers, but Some  
Undelivered Refunds Were Unnecessarily Delayed  
(Audit # 200140056)

The enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 on June 7, 2001, presented many implementation and administrative challenges. We believe our efforts were highly successful in meeting the intent of the legislation in a timely manner. As highlighted in your report we:

- Determined the eligibility of 120 million taxpayers
- Promptly notified taxpayers of their eligibility and when to expect their refund
- Provided tax relief credits totaling \$39 billion to 91.6 million taxpayers from July through December
- Provided a toll-free telephone number for taxpayers to determine the amount and status of their refund

As you acknowledged in your report, "The IRS accurately calculated and issued advanced refunds to eligible taxpayers. In addition, the IRS analyzed taxpayers' accounts with credit balances at the year-end and properly reversed remaining advanced refund credits to prevent refunds after December 31, 2001."

Your report is accurate and balanced, and your staff's involvement helped us successfully implement and administer the provisions of this law.

We believe your recommendations have merit, and we have asked for programming changes that would automatically reissue refunds as recommended in your report. We also agree with the Outcome Measures associated with the recommendations.

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Our comments on your recommendations:

### **RECOMMENDATION 1**

The Commissioner, Wage and Investment (W&I) Division, should revise computer programming to automatically reissue undelivered refunds for any address changes occurring after the date of the original refund. Adopting this recommendation would allow these taxpayers to receive their refunds sooner and also reduce the number of Undelivered Refund Check notices generated.

### **ASSESSMENT OF CAUSE**

We had not programmed our computer system to reissue undelivered refunds whenever we received a more current address.

### **CORRECTIVE ACTION**

We agree with this recommendation. On February 4, 2002, we submitted a Request for Information Services (RIS) asking for the programming changes. The RIS, request number WCS-2-0015-A00, was classified as discretionary when we initially submitted it. We amended it on May 22, 2002, to show the request was based on a corrective action.

### **IMPLEMENTATION DATE**

January 15, 2003

### **RESPONSIBLE MANAGEMENT OFFICIALS**

Director, Accounts Management  
Director, Customer Account Services  
Commissioner, Wage and Investment Division

### **CORRECTIVE ACTION MONITORING PLAN**

Accounts Management, Program, Policy, and Guidance staff members will monitor the status of RIS request number WCS-2-0015-A00. They will report changes or delays to the Program Manager.

### **RECOMMENDATION 2**

If Recommendation 1 is adopted, the Commissioner, W&I Division, should eliminate certain required IRS computer system research used to look for more current addresses before mailing the Undelivered Refund Check notices. The computer would be performing this research.

### **ASSESSMENT OF CAUSE**

Under our current process, we credit undelivered refunds to taxpayer accounts and freeze them to prevent the refund from being reissued until we obtain a current address. Employees review original returns and research the computer system looking

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for new addresses. If they find a new address, we reissue the refund to that address. When they cannot find a new address, we send a notice asking the taxpayer to provide a new mailing address. Taxpayers often receive these notices at their address of record even though their refund was returned undelivered.

### **CORRECTIVE ACTION**

We agree with the recommendation and will change our process guidelines once RIS request number WCS-2-0015-A00 is implemented.

### **IMPLEMENTATION DATE**

January 15, 2003

### **RESPONSIBLE MANAGEMENT OFFICIALS**

Director, Accounts Management  
Director, Customer Account Services  
Commissioner, Wage and Investment Division

### **CORRECTIVE ACTION MONITORING PLAN**

Accounts Management, Program, Policy, and Guidance staff members will monitor the status of RIS request number WCS-2-0015-A00. Once implemented, we will issue the appropriate changes to the guidelines. Progress will be reported to the Program Manager.

If you have any questions, please call me at (202) 622-6860, or Ron Watson, Director, Customer Account Services at (404) 338-8910.